



Office of Audit Services
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September 16, 2005

AGENDA ITEM 7

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** R Street Project Independent Auditor Contract Augmentation
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** Finance Committee approval and recommendation to the Board of Administration for the following:
 - A) Augment the contract for audit and attest work on the Headquarters Building Expansion Project by \$51,510 to continue services for the duration of the Project.
 - B) Exemption from competitive bidding since the augmentation is greater than 30% of the original contract.
- IV. ANALYSIS:**

CalPERS contracted with Turner Construction, Kendall Heaton (Architect of Record), Hensel Phelps, and other companies to build the new Headquarters Building across from Lincoln Plaza. The Board of Administration's independent Real Estate Compliance Auditor provides specialized real estate and construction audit and attest services as well as oversight of the financial activities. These services are outlined in Contract #2000-1914, effective June 2000. The original contract amount was for \$78,770 and was exempted from competitive bid since these services are similar to the real estate compliance audits performed by the Board's independent Real Estate Compliance Auditor. In May 2003, the Finance Committee and the Board of Administration approved a time extension of the contract for the duration of the R Street Project (Amendment 1 to the contract). The R Street Project requires additional audit and attest services as the project comes to conclusion. A budget augmentation of \$51,510 to the existing contract is necessary to fund the anticipated audit services. The funds are currently included in the R Street budget, no additional funds are requested.

We are requesting an augmentation of \$51,510 in the existing contract and an exemption from competitive bidding because this is a greater than 30% increase in the original contract (CalPERS Administrative Manual, Contracts Management Section, Page 19). The exemption is requested under Criterion 2. A “critical time frame” exists; and there is a current contractor that is competently and expeditiously performing the service; and the current contractor is doing so at a reasonable fee. The following criteria are used for the exemption from competitive bidding for the contract augmentation.

1. **Critical Time Frame Exists.** The R Street Project is in the completion phases and the services are needed immediately. The audit and attest services are currently being provided by Conrad and Associates under a time extension amendment to the existing contract for the duration of the R Street Project. The audit work for Fiscal Year 2004/2005 should be completed immediately. Performing an RFP for this work would delay this work by several months. CalPERS should continue with the same audit firm to provide continuity, efficiency, and consistency.
2. **Current Contractor Is Competently and Expeditiously Performing the Services.** Conrad and Associates have performed real estate compliance audits for CalPERS since 1992. Conrad and Associates have provided services related to the R Street Project since 1999, and they are familiar with this Project. Conrad and Associates are poised to complete this work during October of 2005. Changing firms in mid-stream would require a new RFP and would cause needless additional expense and inefficiencies.
3. **Current Contractor Can Do So at a Reasonable Fee.** Conrad and Associates is charging the following rates for professional services for this contract:
 - a. Partner @\$110
 - b. Manager @\$ 90
 - c. Associate @\$ 75

In addition, CalPERS will pay the transportation and travel costs at the rates for represented employees.

These rates charged by Conrad and Associates are reasonable in today's market. These rates are well below those charged by the Big 4 accounting firms, and we receive services of staff experienced in real estate contract compliance from a more specialized firm that is familiar with the R Street Project.

V. STRATEGIC PLAN:

This contract is not a part of the strategic plan, but it is part of the on-going workload of the Office of Audit Services.

VI. RESULTS/COSTS:

This contract will authorize the expenditure of and additional \$51,510 during the duration of the R Street Project.

Larry Jensen, Chief
Office of Audit Services

Peter H. Mixon
General Counsel